

2007 TAX PREFERENCE PERFORMANCE REVIEWS

PROPOSED SCOPE AND OBJECTIVES

JANUARY 2007



STATE OF WASHINGTON
JOINT LEGISLATIVE AUDIT AND
REVIEW COMMITTEE

STUDY TEAM

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MANDATE

Engrossed House Bill 1069 (2006) established the Citizen Commission for Performance Measurement of Tax Preferences and directed it to develop a schedule for periodic review of the state's tax preferences. The bill also directed the Joint Legislative Audit and Review Committee (JLARC) to conduct the periodic reviews.

BACKGROUND

Tax preferences are exemptions, exclusions, or deductions from the base of a state tax; a credit against a state tax; a deferral of a state tax; or a preferential state tax rate. The state has more than 500 tax preferences.

Recognizing the need to assess the effectiveness of these tax preferences in meeting their intended objectives, and an orderly process to do so, the Legislature established the Citizen Commission for Performance Measurement of Tax Preferences. The role of the commission is to develop a schedule for the performance review of all tax preferences at least once every ten years. The ten year schedule is to be revised annually.

Omitted from review are several categories of tax preferences identified by statute (e.g., tax preferences required by constitutional law). Any tax preference that the commission determines is a critical part of the structure of the tax system may also be omitted. The commission may recommend an expedited review process for any tax preference that has an estimated biennial fiscal impact of \$10 million or less.

JLARC is to review tax preferences according to the schedule developed by the commission, and consistent with guidelines set forth in statute. For each tax preference JLARC is to provide recommendations to (1) continue, (2) modify, (3) add an expiration date and conduct another review prior to the expiration date, or (4) terminate the preference. JLARC may also recommend accountability standards for future reviews of tax preferences.

FULL STUDY SCOPE

This tax preference performance review will include the tax preferences identified by the Citizen Commission to be reviewed prior to August 30, 2007. These tax preferences were recommended by the Citizen Commission as being subject to full review:

Brief Description	RCW Citation	Year Enacted
1. Cemeteries	84.36.020	1854
2. Churches, parsonages and convents	84.36.020	1854
3. Household goods	84.36.110(1)	1871
4. Nonprofit hospitals	84.36.040(1e)	1886
5. Nonsectarian organizations	84.36.030(1)	1915
6. Refund of fuel tax for exported fuel	82.36.300	1923

FULL STUDY OBJECTIVES

In response to the legislative directive, the study will answer, for each tax preference, the following questions:

Public Policy Objectives:

1. What are the public policy objectives that provide a justification for the tax preference? Is there any documentation on the purpose or intent of the tax preference? (RCW 43.136.055(b))
2. What evidence exists to show that the tax preference has contributed to the achievement of any of these public policy objectives? (RCW 43.136.055(c))
3. To what extent will continuation of the tax preference contribute to these public policy objectives? (RCW 43.136.055(d))
4. If the public policy objectives are not being fulfilled, what is the feasibility of modifying the tax preference for adjustment or recapture of the tax benefits? (RCW 43.136.055(g))

Beneficiaries:

5. Who are the entities whose state tax liabilities are directly affected by the tax preference? (RCW 43.136.055(a))
6. To what extent is the tax preference providing unintended benefits to entities other than those the legislature intended? (RCW 43.136.055(e))

Revenue and Economic Impacts:

7. What are the past and future tax revenue and economic impacts of the tax preference to the taxpayer and to the government if it is continued? (This includes an analysis of the general effects of the tax preference on the overall state economy, including the effects on consumption and expenditures of persons and businesses within the state.) (RCW 43.136.055(h))
8. If the tax preference were to be terminated, what would be the negative effects on the taxpayers who currently benefit from the tax preference and the extent to which the resulting higher taxes would have an effect on employment and the economy? (RCW 43.136.055(f))
9. If the tax preference were to be terminated, what would be the effect on the distribution of liability for payment of state taxes? (RCW 43.136.055(i))

Other States:

10. Do other states have a similar tax preference and what potential public policy benefits might be gained by incorporating a corresponding provision in Washington? (RCW 43.136.055(j))

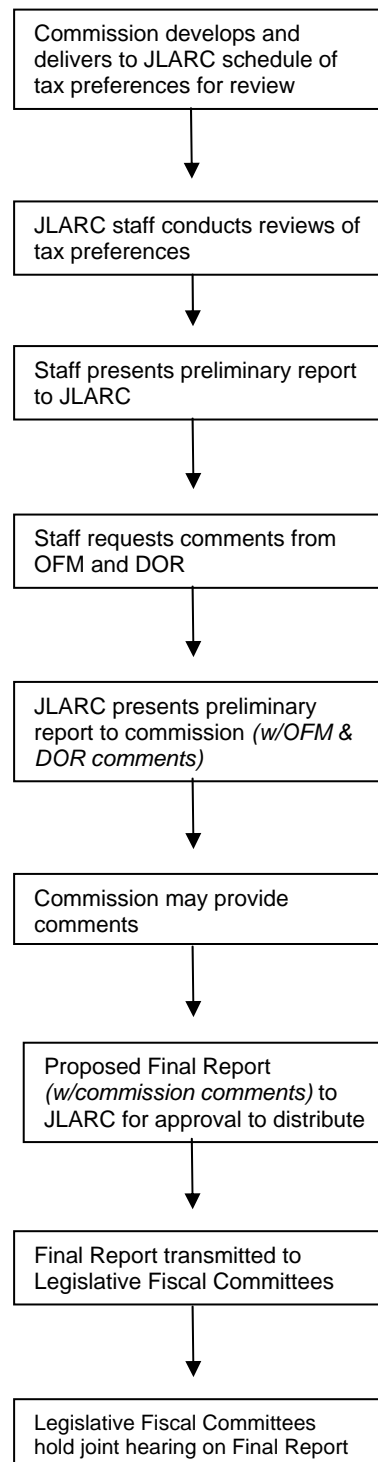
TIMEFRAME FOR THE STUDY

A preliminary audit report will be presented at the July 2007 JLARC meeting and at the August 2007 meeting of the commission. A final report will be presented to JLARC in November 2007.

JLARC STAFF CONTACT FOR THE STUDY

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Tax Preference Review Process



2007 EXPEDITED TAX PREFERENCE PERFORMANCE REVIEWS

PROPOSED SCOPE AND OBJECTIVES

JANUARY 2007



STATE OF WASHINGTON
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MANDATE

Engrossed House Bill 1069 (2006) established the Citizen Commission for Performance Measurement of Tax Preferences and directed it to develop a schedule for periodic review of the state's tax preferences. The bill also directed the Joint Legislative Audit and Review Committee (JLARC) to conduct the periodic reviews.

BACKGROUND

Tax preferences are exemptions, exclusions, or deductions from the base of a state tax; a credit against a state tax; a deferral of a state tax; or a preferential state tax rate. The state has more than 500 tax preferences.

Recognizing the need to assess the effectiveness of these tax preferences in meeting their intended objectives, and an orderly process to do so, the Legislature established the Citizen Commission for Performance Measurement of Tax Preferences. The role of the commission is to develop a schedule for the performance review of all tax preferences at least once every ten years. The ten year schedule is to be revised annually.

Omitted from review are several categories of tax preferences identified by statute (e.g., tax preferences required by constitutional law). Any tax preference that the commission determines is a critical part of the structure of the tax system may also be omitted. **The commission may recommend an expedited review process for any tax preference that has an estimated biennial fiscal impact of \$10 million or less.**

JLARC is to review tax preferences according to the schedule developed by the commission, and consistent with guidelines set forth in statute. For each tax preference JLARC is to provide recommendations to (1) continue, (2) modify, (3) add an expiration date and conduct another review prior to the expiration date, or (4) terminate the preference. JLARC may also recommend accountability standards for future reviews of tax preferences.

EXPEDITED STUDY SCOPE

This tax preference performance review will include the tax preferences identified by the Citizen Commission to be reviewed prior to August 30, 2007. These tax preferences were recommended by the Citizen Commission as being subject to an expedited review process:

Brief Description	RCW Citation	Year Enacted
1. Nonprofit libraries	84.36.040(1b)	1854
2. Fire companies	84.36.060(1c)	1890
3. Growing crops	84.40.030(3)	1890
4. Nursing homes	84.36.040(1d)	1891
5. Orphanages	84.36.040(1c)	1891
6. Humane societies	84.36.060(1d)	1915
7. Collections and museums	84.36.060(1a)	1915
8. Refunded fuel tax for nonhighway use	82.36.280	1923
9. Lost or destroyed fuel	82.36.370; 82.38.180	1923

EXPEDITED STUDY SCOPE (cont'd.)

Brief Description	RCW Citation	Year Enacted
10. Veterans organizations	84.36.030(4)	1929
11. Youth organizations	84.36.030(3)	1933
12. Contributions and donations	82.04.4282	1935
13. Membership dues and fees	82.04.4282	1935
14. Horse Racing	82.04.350	1935
15. Boxing and wrestling matches	82.04.340	1935
16. Sales tax deferral; historic auto museums	82.32.580	2005

EXPEDITED STUDY OBJECTIVES

In response to the legislative directive, the study will answer, for each tax preference, the following questions:

Public Policy Objectives:

1. What are the public policy objectives that provide a justification for the tax preference? Is there any documentation on the purpose or intent of the tax preference?
2. Is there any readily available evidence related to the achievement of any of these public policy objectives (in the past, present or future)?

Beneficiaries:

3. Who are the entities whose state tax liabilities are directly affected by the tax preference?
4. To what extent is the tax preference providing unintended tax benefits to entities other than those the legislature intended?

Revenue and Economic Impacts:

5. What are the past and future tax revenue impacts of the tax preference to the taxpayer and to the government if it is continued?
6. What impact do the beneficiaries of the tax preference have on the economy at a state and regional level?

Other States:

7. Do other states have a similar tax preference?

TIMEFRAME FOR THE STUDY

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Tax Preference Review Process

